

## **MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY HOUSING INITIATIVES DIVISION (HID)**

**Subject: SUBSIDY LIMITS AND LIEN REQUIREMENTS**

**Effective Date: April 12, 2016**

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This policy defines the subsidy limits, lien requirements and miscellaneous provisions for MSHDA's Housing Initiatives Division Homeowner Rehabilitation Program.

### **SUBSIDY LIMITS**

**Minimum Limit** Minimum financial assistance limits apply only to HOME-funded projects. The HOME regulations require a minimum HOME investment of \$1,000.

**Maximum Limits Homeowner Rehabilitation** assistance is inclusive of hard costs, lead-based paint hazard reduction or abatement costs, eligible soft costs and activity/project delivery costs specifically attributable to the project. See Administrative and Project Costs Chart for eligible soft costs and activity/project delivery costs and their allowable percentages.

### **LIEN REQUIREMENTS**

#### **Homeowner**

If HID's federal assistance in a project is equal to or less than \$2,500, no lien is required. If HID's federal assistance exceeds \$2,500, a lien on the property is required. However, costs up to \$5,000 specifically attributable to lead-based paint hazard reduction or abatement and any activity/project delivery costs charged to the project may be excluded from the lien.

Repayment of HID's homeowner assistance is required upon sale or transfer of the property to a new owner or if the property is no longer occupied by the borrower. Repayment is ensured through a mortgage note and recorded mortgage (lien) on the property. There is no HOME affordability period.

The Application will identify the mortgage options between the homeowner and MSHDA.

MSHDA's mortgage must be signed by every person AND their spouse (if applicable) listed on the warranty deed, quit claim deed or title. MSHDA's mortgage note must be signed by the applicant(s) (can be husband and wife, OR husband, OR wife).

### **MISCELLANEOUS PROVISIONS**

**Land Contracts for Homeowner Rehabilitation** An enforceable lien would require the signatures of all parties with a legal interest in the property. The HOME applicant(s) and all Land Contract holder(s) in the chain of title must sign MSHDA's mortgage. Only the borrower(s) would sign MSHDA's mortgage note.

An alternative to the Land Contract seller(s) signing MSHDA's mortgage would be for them to sign a Land Contract Subordination Agreement. This document would be recorded and would give the grantee a superior lien position to the Land Contract seller(s).

### **SUBORDINATIONS**

**Liens Held with MSHDA.** For liens held in MSHDA's name, subordinations will only be considered for better rate and/or term with no cash back or debt consolidation. MSHDA will not subordinate to reverse mortgages. MSHDA will allow reverse mortgages if our lien is paid off or MSHDA is in first lien position.

## **Liens Held Locally**

### **Subordination for Refinancing**

If subordination is allowed locally and set forth in written program guidelines, HID allows refinancing of existing mortgage debt for rate and/or term improvement. MSHDA approval is not required as no new debt is being incurred. Requests for subordinations require grantee to review the Good Faith Estimate, title insurance, payoff letter, interest rate and terms of new mortgage, etc. in conjunction with grantee's subordination policy and reasonable closing costs. Contact MSHDA HID Mortgage Servicer with questions.

### **Subordination for New Debt Being Incurred**

Subordination of a lien where new debt is being incurred will be allowed by MSHDA only for HID funded homeowner rehabilitation projects, and only if the following criteria are met. The local plan for subordination of liens can be more restrictive; however, it must be submitted to the MSHDA HID Mortgage Servicer for approval.

1. A local policy and review process must be established to approve subordination requests. This policy and process must be approved by the grantee's legal counsel.
2. Eligible and ineligible purposes for subordination must be outlined in the grantee's local policy.
3. The local policy must be approved by MSHDA prior to policy implementation.
4. A copy of each lien subordination approval letter must be kept in the project file and available for MSHDA review.
5. The total amount of all liens against the property, including the lien resulting from HID funding, cannot exceed 80% of the property's value based on a current appraisal.
6. The household must have income at or below 80% AMI.
7. A minimum of one year must have passed since the HID assistance was received.
8. The new loan interest rate and associated loan costs must be competitive with the lowest rates and costs currently available in the lending industry. A worksheet evaluating current loan rates and costs must be part of the approval process.
9. The proceeds of the loan the grantee is subordinating to must be disbursed by the lender for the approved purposes of the loan. Grantee must keep copies of disbursement checks in project file.

## **LIEN TRANSFERABILITY**

All mortgage servicing questions and approvals should be directed to HID's Mortgage Servicer.

## **LIEN WORKOUTS**

**Liens Held with MSHDA.** Questions regarding death of homeowner, refinance, subordination, assumption, hardship, forgiveness should be directed to HID Mortgage Servicer.

All liens must be recorded at the applicable Register of Deeds office.

If you have questions, contact the Housing Initiatives Office at 517-335-2524.